
United States Court of Appeals
For the Ninth Circuit

SKI POLE SPECIALISTS, INC., a corporation,
Plaintiff-Appellant,

vs.

ROBERT J. McDONALD,
Defendant-Appellee.

APPEAL FROM UNITED STATES DISTRICT COURT
DISTRICT OF IDAHO

APPELLANT'S OPENING BRIEF

RICHARD W. SEED
SEED, BERRY & DOWREY

FILED

DEC 13 1967

02 Norton Building
Seattle, Washington 98104

WM. B. LUCK, CLERK

JAMES B. DONART
DONART & DONART
Attorneys for Plaintiff-Appellant

East Main Street
Pocatello, Idaho 83672

United States Court of Appeals
For the Ninth Circuit

SKI POLE SPECIALISTS, INC., a corporation,
Plaintiff-Appellant,

vs.

ROBERT J. McDONALD,
Defendant-Appellee.

APPEAL FROM UNITED STATES DISTRICT COURT
DISTRICT OF IDAHO

APPELLANT'S OPENING BRIEF

RICHARD W. SEED
SEED, BERRY & DOWREY

1502 Norton Building
Seattle, Washington 98104

JAMES B. DONART
DONART & DONART
Attorneys for Plaintiff-Appellant

32 East Main Street
Weiser, Idaho 83672

INDEX

	<i>Page</i>
I. Jurisdiction	1
II. Statement of the Case	2
A. The Nature of the Controversy	2
B. The Parties	2
C. The Pleadings	2
D. The Facts Developed at Trial	3
1. General Factual Background	3
2. The Charge of Infringement by Appellee McDonald	6
3. The Price Fixing Clause in the License Agreement from Appellee McDonald to Edward L. Scott	8
E. Disposition of the Case by Trial Court	9
III. Specifications of Errors	9
IV. Argument	10
A. The Notice of August 30, 1965, from Appellee's Attorneys to Appellant Was a Charge of Infringement	13
B. The License Agreement Is Illegal on Its Face and the Trial Court Should Have Passed on This Issue	19
C. Summary	28
Certificate of Service	30
Certificate of Compliance	30

TABLE OF CASES

	<i>Page</i>
<i>Alleghany County v. Frank Mashuda</i> , 360 U.S. 185, 79 S.Ct. 1060, 3 L.Ed. 2d 1163	27
<i>Bowers Manufacturing vs. All-Steel Equipment, Inc.</i> , 275 F.2d 809, 9th Cir., 1960	12
<i>Brulotte v. Thys Co.</i> , 379 U.S. 29, 85 S.Ct. 176, 13 L.Ed. 2d 99 (1964)	12, 20
<i>Bucky vs. Sebo</i> , 208 F.2d 304, 2nd Cir., 1953	10, 18
<i>Cable Vision, Inc. v. KUTV, Inc.</i> , 335 F.2d 348, 9th Cir., 1964	13, 20
<i>Carpenter v. Thurston</i> , 30 Cal. 123 (1866)	10, 17
<i>Consolidated Electro Corporation vs. Midwestern Instruments</i> , 260 F.2d 811, 10th Cir., 1958	10
<i>Consolidated Packaging Machinery Corporation vs. Kelley</i> , 253 F.2d 48, 7th Cir., 1958, cert den., 78 S.Ct. 1151, 357 U.S. 906	11, 19
<i>Continental Wall Paper Co. v. Louis Voight & Sons Co.</i> , 212 U.S. 227, 29 S.Ct. 280, 53 L.Ed. 486 (1908)	19, 20
<i>Dr. Beck & Co. C.M.B.H. v. General Electric Company</i> , 2nd Cir., 1963, 317 F.2d 538	14
<i>Douglass vs. United States Appliance Corpora- tion</i> , 177 F.2d 98, 9th Cir., (1949)	12
<i>Edward Katzinger Company vs. Chicago Metallic Manufacturing Company</i> , (1947) 329 U.S. 394, 67 S.Ct. 416, 91 L.Ed 374	12, 13, 21, 23, 24
<i>Hawley Products Co. v. U. S. Trunk</i> , 259 F.2d 68, 1st Cir., 1958	11

TABLE OF CASES

	<i>Page</i>
<i>Hot Springs Coal v. Miller</i> , 107 F.2d 677	11
<i>Lear Siegler, Inc. vs. Adkins</i> , 330 F.2d 559, 9th Cir., 1964	12, 27
<i>Lyons vs. Westinghouse Electric Corporation</i> , 2nd Cir., 1955, 222 F.2d 184	12, 25, 28
<i>Mach-Tronics, Inc. vs. Zirpoli</i> , 316 F.2d 820, 9th Cir., 1963	12, 26, 28
<i>McClellan v. Carland</i> , 217 U.S. 281, 30 S.Ct. 501	27
<i>Meredith v. City of Winterhaven</i> , 320 U.S. 228, 64 S.Ct. 7, 88 L.Ed. 9	27
<i>N.S.W. Company vs. Wholesale Lumber and Millwork</i> , 123 F.2d 38, 6th Cir., 1941	10, 19
<i>Propper v. Clark</i> , 337 U.S. 472, 69 S.Ct. 1333, 93 L.Ed. 1480	27
<i>Rambusch Decorating Company vs. Brotherhood, etc. of America</i> , 105 F.2d 134, 2nd Cir., 1939, Cert. den., 308 U.S. 587, 60 S.Ct. 110, 84 L.Ed. 492	11
<i>Sola Electric Company vs. Jefferson Electric Company</i> , 317 U.S. 173, 87 L.Ed. 168, 63 S.Ct. 172	12, 21, 23
<i>Southside Theaters Inc. et al. vs. United West Coast Theaters Corporation et al.</i> , 178 F.2d 648, 9th Cir., 1949	11
<i>Wilcox v. Consolidated Gas Co.</i> , 212 U.S. 19, 29 S.Ct. 192, 53 L.Ed. 382	27
<i>Yahola Sand & Gravel v. Marx</i> , 358 P.2d 366	11

STATUTES

	<i>Page</i>
15 U.S.C. 1-7, 15, 26	1, 10, 21
28 U.S.C. 1229, 1338, 2201	1
35 U.S.C. 287	17

REFERENCES

Restatement of Agency (2nd Ed) Secs. 160, 161	11
7 C.J.S., Attorney & Client, Sec. 67, p. 850	10
66 C.J.S., Notice, Sec. 19a, p. 668	10, 17

**United States Court of Appeals
For the Ninth Circuit**

SKI POLE SPECIALISTS, INC.,
a corporation, *Plaintiff,-Appellant,*

vs.

ROBERT J. McDONALD,
Defendant-Appellee.

No. 22123

APPEAL FROM UNITED STATES DISTRICT COURT
DISTRICT OF IDAHO

APPELLANT'S OPENING BRIEF

I JURISDICTION

This action was instituted by plaintiff for a declaratory judgment declaring invalid Letters Patent issued to defendant. Plaintiff's Complaint (R-6) was brought under the Declaratory Judgments Statute, 28 U.S.C. 2201, and the Patent Statute, 28 U.S.C. 1338. Defendant by his Answer (R-14) impleaded a License Agreement with a predecessor of plaintiff. At trial plaintiff asserted that the License Agreement, if valid and binding upon plaintiff, contained a price fixing provision and asserted an additional ground for jurisdiction under the Anti-Trust Act, 15 U.S.C. § 15 and § 26. Appellant appeals from an adverse Judgment. Jurisdiction of this appeal is based upon Title 28 U.S.C. § 1291.

II STATEMENT OF THE CASE

A. THE NATURE OF THE CONTROVERSY

This action was instituted by the appellant for a Declaratory Judgment holding defendant's United States Letters Patent No. 3,193,300 invalid. Appellant's Complaint (Complaint R-6) alleges that the defendant claimed and notified plaintiff that certain ski pole rings sold by plaintiff infringe defendant's patent. Appellee by his Answer alleges that plaintiff-appellant is assignee of one Edward L. Scott, a licensee, and impleaded the License Agreement (Answer R-14). Appellee asserts that he has not contended that appellant has infringed his patent. This appeal relates to the question of whether or not appellant has been regarded as an infringer by appellee and whether or not the Court should pass upon the validity of the patent in any event because of the presence of a price fixing provision in the License Agreement.

B. THE PARTIES

Appellant is an Idaho corporation with its principal place of business at Ketchum, near Sun Valley, Idaho. Appellee is also a resident of Ketchum, Idaho.

C. THE PLEADINGS

The only pleadings filed in the action were appellant's Complaint filed on February 24th, 1966, and appellee's Answer filed on March 18th, 1966. A Pre-Trial Conference Order was filed on January 26th, 1967. (R-99). The only other pre-trial pleading germane to the issues presented on this appeal is defendant's Motion for Summary Judgment (R-105)

ed by the defendant February 15th, 1967, and denied
ter hearing in open court on February 27th, 1967.

. THE FACTS DEVELOPED AT TRIAL

1. GENERAL FACTUAL BACKGROUND

The subject matter of this suit relates to ski poles which consist of a shaft having a snow engaging ring adjacent its lower end and a hand grip at its upper extremity.

Appellant corporation was founded by one Edward Scott and was the outgrowth of his conception and development in the late 1950's of a new type of ski pole shaft. It was subsequently patented and Scott, who had operated a retail ski shop in Ketchum, Idaho, commenced to assemble, distribute and sell ski poles known as the Scott Pole. The Scott Pole was an immediate success and by 1960 Scott had closed his retail business and was assembling, selling and distributing his ski pole.

During the year 1960, Scott and the appellee collaborated on the design for an improved ski pole ring. Appellee conceived an idea for the ring and in October, 1960, caused to be prepared and submitted to Scott a non-exclusive non-assignable License Agreement (Exhibit 41) providing for royalty payment to appellee which was executed by Scott without the benefit of independent legal counsel. Scott commenced using the rings for his ski poles. Scott's financial position was extremely precarious and payments were made to appellee without any record or correlation of amounts due but on the basis of when Scott had money available.

In order to attract the necessary capital for his growing business, Scott in November, 1961, caused appellant corporation to be formed. Its stock was offered and sold to the public although Scott retained slightly over fifty per cent himself. Appellee meanwhile, following the execution of the License Agreement, in January, 1961, filed an application for Letters Patent on his ski pole ring. By the fall of 1961, many other manufacturers of ski poles were using the appellee's ski pole ring without payment of any royalty. Scott, at the time of formation of his corporation, did not assign his License Agreement with appellee to appellant corporation although he did convey all of the rest of his business assets and the appellant corporation assumed his liabilities. Appellant corporation continued making payments on Scott's account to appellee until 1963 when payments ceased.

In 1962 and 1963, appellee undertook to manufacture and market his ring under the name of Tempo and offered the ring to the trade. This venture was unsuccessful.

In early 1964, appellee commenced an action in the State Court for an accounting against Scott. This action was commenced prior to the issuance of any patent. The action did not come on for trial until the latter part of June, 1965. At the trial the appellee here, plaintiff there, moved for a continuance when a Motion for Non-Suit was interposed at the close of the appellee's case. Motion for Continuance was granted and while the matter was pending and under advisement by the State Court, on July 6th, 1965, appellee's Patent No. 3,193,300 (Exhibit 33) issued.

While the Motion for Involuntary Dismissal was

still pending and undisposed of in the State Court, Notice of Patent Issuance (Exhibit 39) was served by appellee's attorneys upon appellant, Scott and Precision Ski Pole Manufacturing Company. Thereafter, the Trial Court in the State action denied the Motion for Involuntary Dismissal that had been interposed by the defendant Scott and ordered the appellant herein to be made a party defendant. No further proceedings were conducted in the State Court and the action has been dormant since the latter part of 1965. At the time of trial of the instant case, the appellee (Plaintiff in the State Court) was not represented by counsel in the State Court.

Thereafter on February 24th, 1966, appellant commenced this action seeking a Declaratory Judgment declaring the Mc Donald Patent No. 3,193,300 invalid. By way of defense, appellee Mc Donald contended that appellant was the assignee of Scott under the License Agreement and that appellant was, therefore, estopped to challenge the validity of appellee's license. Appellee contended that he had not treated appellant as an infringer and that his patent was valid. Appellant asserted that Scott had not assigned his License to appellant company, that appellant had been served with a notice that it was an infringer, and that even if appellant were a licensee of appellee it should be permitted to challenge the validity of appellee's patent in order to determine the validity and enforceability of the price-fixing clause contained in the non-exclusive license existing between Scott and appellee. Appellant likewise asserted that the patent was invalid. Abundant testimony was taken on both the question of whether or not appellant was estopped to attack validity and the question of validity itself.

2. THE CHARGE OF INFRINGEMENT BY APPELLEE MC DONALD

With respect to the question of whether or not appellant had been regarded as an infringer by appellee, thus giving appellant standing to maintain this action, the witness Scott testified (pages 15-17, Transcript) in substance and effect that he was on the 30th day of August, 1965, President of appellant corporation and that very shortly thereafter he received in the United States mail Exhibit 39 which reads as follows:

“NOTICE OF PATENT ISSUANCE

To: Edward L. Scott d/b/a Ski Pole Specialists; to Scott Ski Pole Specialists Manufacturing, Inc., now known as Scott-U.S.A. and Precision Ski Pole Manufacturing Company and to James Donart, their attorney.

The undersigned attorneys for Robert J. Mc Donald understand that you are making, using and selling ski poles which use the invention covered by our client's United States Patent No. 3,193,300 issued July 6th, 1965, and entitled “ski pole rings.” You are hereby notified that any unlawful manufacture, use or sale of articles infringing this patent will not be tolerated and that our client, Robert J. Mc Donald, intends to enforce his rights.

Dated August 30th, 1965.

CRAMER, WALKER, POPE & PLANKEY
Attorneys for Robert J. Mc Donald”

Appellant's witness, John Woodward, was then called and identified himself as Vice-President of Anderson & Thompson Ski Company, a distributor, importer and manufacturer of ski equipment for sales to retailers (page 18, Transcript, Lines 5-18). The witness Woodward testified (Transcript, Pg. 31) that his

company had been marketing a ski pole ring since 1962 or 1963 which was very similar to the rings (Exhibit 18) sold by appellant. The witness further testified that he had never had any contractual relationship by license agreement or otherwise with the appellee (page 32, Transcript) and that in the latter part of 1965 he did, nevertheless, receive a Notice of Infringement from the appellee in the form of a letter from appellee bearing date of November 1st, 1965, addressed to Anderson & Thompson Ski Company on appellee's stationery and bearing the signature of the appellee. This notice, Exhibit 47, reads as follows:

“It is my understanding that you are still making, using or selling ski poles which use the invention or inventions covered by my U. S. Patent Nos. 3,193,300 and 3,204,974.

This is to notify you once again that any unlawful manufacture, use or sale of articles infringing these patents will not be tolerated and that I intend to enforce my rights.”

The appellee McDonald testified upon being called for cross-examination by plaintiff (Lines 8-15, page 78, Transcript) that notices were sent to others in the trade. This statement by appellee was coupled with the suggestion that his then attorneys, Kramer, Walker, Pope & Plankey, had sent notice to appellant without authority and the assertion that he had never seen the notice sent by them until he got their records after many months of trying (Pages 79-80, Transcript).

3. THE PRICE FIXING CLAUSE IN THE LICENSE AGREEMENT FROM APPELLEE MC DONALD TO EDWARD L. SCOTT

The License Agreement in question (Exhibit 69) bears date of October 6th, 1960, and was executed by the appellee (as licensor) and Scott (as licensee), now President of the appellant Company. Paragraph 8 thereof reads as follows:

“It is hereby specifically agreed that the parties hereto contemplate items manufactured in accordance with the aforesaid invention are to be sold as quality items at or above the highest price of comparable items on the market. If the licensee desires to market cheaper models, he must obtain consent of the licensor in writing to sell items below the highest price of comparable items on the market.”

Paragraph 1 of the license provided that it was non-exclusive and covered both the United States and Canada. The license was signed before a patent application was filed in the United States and no application was ever filed in Canada.

In order to illustrate the ease with which appellee himself could have fixed and established prices of his device, counsel for appellant upon cross-examination of appellee elicited from appellee that he himself (since the license to Scott was non-exclusive) had embarked upon his own enterprise to manufacture and sell his device under the trade name of Tempo, and that although the enterprise was unsuccessful, he did, nevertheless, produce samples and undertake to sell to others in the trade. His sample Tempo ring (Exhibit 82) was admitted in evidence (Pages 349-350, Transcript).

II. DISPOSITION OF THE CASE BY TRIAL COURT

The Court by its Memorandum Decision (R-198) held that appellant corporation was the alter ego of the witness Scott as President; that the appellant was a licensee and therefore estopped to deny validity of appellee's patent. The Court held that the Notice sent to appellant was ambiguous and not intended as a claim of infringement and that appellant was not justified in considering the same as a claim of infringement and therefore was not relieved of the estoppel of the License Agreement. The court refused to pass upon the effect of the price-fixing provision in the License Agreement and held that it could be best left for disposition by the State Court and declined to pass upon the issue. The Court did not reach the issue of validity of the patent although extensive testimony was taken on both sides, but stated in its Opinion that it was in a position to render a decision on the question of patent validity and that it could, in the event of reversal upon appeal, render a decision on that question without taking further evidence.

III SPECIFICATIONS OF ERRORS

1. That the Court erred in failing to pass upon and find defendant's patent invalid.
2. That the Court erred in failing to pass upon the question of price fixing appearing in the License Agreement.
3. That the Court erred in finding that the notice given to appellant (Plaintiff's Exhibit No. 39) by appellee was not a notice of claim of infringement.

4. That the Court erred in denying Plaintiff's Motion to Alter and Amend Judgment.

5. The Court erred in denying Plaintiff's Motion for New Trial Under Rule 59, Federal Rules of Civil Procedure.

6. The Court erred in denying Plaintiff's Motion to Amend or Make Additional Findings of Fact and Conclusions of Law.

IV ARGUMENT

At the outset, appellant sets forth herein its propositions of law and authority upon which argument herein is based; they are:

1. A patentee who treats his licensor as an infringer is estopped to assert the License as a defense to a claim of invalidity of the patent. *N.S.W. Company vs. Wholesale Lumber and Millwork*, 123 Fed. 2d 38, 6th Cir., 1941; *Bucky vs. Sebo*, 208 Fed.2d 304, 2nd Cir., 1953; *Consolidated Electro. Corporation vs. Midwestern Instruments*, 260 Fed.2d 811, 10th Cir., 1958.

2. An ambiguous notice must be construed most strongly against the person who gives it. 66 C.J.S. Notice, Sec. 19a, p. 668; *Carpenter v. Thurston*, 30 Cal. 123, 125.

3. In determining whether third persons can rely upon acts of an attorney as being binding on his client the rules of agency apply. 7 C.J.S., Attorney & Client, Sec. 67, p. 850.

4. A principal is bound by acts of his agent acting

within the bounds of his apparent authority. *Restatement of Agency* (2nd Ed.) Secs. 160, 161.

5. A client is bound by his attorney's acts and if he does not want to be bound he must disaffirm those acts promptly. *Yahola Sand & Gravel v. Marx*, 358 P.2d 366; *Hot Springs Coal v. Miller*, 107 Fed.2d 677.

6. Plaintiff cannot withdraw charge of infringement after commencement of declaratory judgment action to test validity of patent and thus avoid a controversy and defeat jurisdiction. *Hawley Products Co. v. U. S. Trunk*, 259 F.2d 68, 1st Cir., 1958.

7. Any person who shall be injured in his business or property by reason of anything forbidden in the Anti-Trust Laws may sue therefor in any District Court in the United States in which the defendant resides or is found or has an agent without respect to the amount in controversy. *Title 15 U.S.C., Sec. 15.*

8. A Declaratory Judgment action in which the Court is asked to declare a contract illegal under the Sherman Act presents a federal question sufficient to give a Federal District Court Jurisdiction. *Southside Theaters Inc. et al. vs. United West Coast Theaters Corporation et al*, 178 Fed.2d 648, 651, 9th Cir., 1949; *Rambusch Decorating Company vs. Brotherhood, etc. of America*, 105 Fed.2d 134, 2nd Cir., 1939; Cert. den., 308 U.S. 587, 60 S Ct 110, 84 L.Ed. 492.

9. A declaratory judgment action may be brought by a patent licensee against the licensor to declare a License Agreement invalid on the ground that a price-fixing arrangement in the agreement is violative of the Sherman Act. *Consolidated Packaging Machinery*

Corporation vs. Kelley, 253 Fed.2d 48, 7th Cir., 1958; Cert den., 78 S.Ct. 1151, 357 U. S. 906.

10. When there is a contract between the parties to a federal action and a state court action is pending based upon the contract, the federal court is without discretion to refrain from exercising jurisdiction when the federal action is under the Federal Anti-Trust Laws. *Mach-Tronics, Inc. vs. Zirpoli*, 316 Fed.2d 820, 9th Cir., 1963; *Lyons vs. Westinghouse Electric Corporation*, 222 Fed.2d 184, 2nd Cir., 1955; *Lear Siegler Inc. vs. Adkins*, 330 Fed.2d 559, 602, 9th Cir., 1964.

11. A non-exclusive licensee can attack the validity of the licensor's patent if the license contains a price-fixing clause because such a clause is a violation of the Sherman Act unless it is within the protection of a lawfully granted patent monopoly. *Sola Electric Company vs. Jefferson Electric Company*, 317 U. S. 173, 177, 87 L.Ed. 168, 63 S.Ct. 172; *Edward Katzinger Company vs. Chicago Metallic Manufacturing Company*, (1947) 329 U. S. 394, 67 S.Ct. 416, 91 L.Ed. 374; *Bowers Manufacturing vs. All-Steel Equipment, Inc.*, 275 Fed.2d, 809, 811, 9th Cir., 1960.

12. A royalty agreement that project beyond the term of a patent is unlawful per se. *Brulotte v. Thys Co.*, 379 U.S. 29, 32, 85 S.Ct. 176, 13 L.Ed. 2d 99, 102, (1964).

13. Estoppel to question the novelty of a patented device must be considered a doctrine of very limited validity. *Douglass vs. United States Appliance Corporation*, 177 Fed.2d 98, 101, 9th Cir., 1949.

14. Patent monopoly rights must have their origin

under the patent laws and cannot be created by private contract. *Cable Vision, Inc. v. KUTV, Inc.*, 335 F.2d 348, 351, 9th Cir., 1964.

15. The issue of price fixing or other illegal provision in a contract can be raised at any time during the proceedings. *Edward Katzinger Company v. Chicago Metallic Mfg. Co.*, supra .

16. An illegal price fixing clause in a license is not severable. *Edward Katzinger Company v. Chicago Metallic Mfg. Co.*, supra.

**A. THE NOTICE OF AUGUST 30, 1965, FROM
APPELLEE'S ATTORNEYS TO APPELLANT
WAS A CHARGE OF INFRINGEMENT**

For the purpose of this argument, it is assumed that appellant is in fact a licensee, an assumption that in itself could be subject to serious dispute in view of the state of the record. If one indulges in that assumption, nevertheless, appellee is immediately met with the notice (Exhibit 39) dispatched to appellant (Pages 15-17, Transcript) which during the trial he tried to avoid by suggesting that it was sent by his then attorneys without his authority. The Court in its Memorandum Decision on the other hand termed it ambiguous. In this respect appellant respectfully submits that the Court erred and that neither position is tenable in view of the substance of the notice and surrounding circumstances.

The Court (p. 6 of its Memorandum Decision) found that the Notice "was not intended as a claim of infringement," and yet McDonald's then attorneys who sent the Notice did not testify at the trial, and McDonald testified that he did not see the Notice for

several months (page 80, Transcript) after it was sent. Therefore the only basis for this finding of the Court was the Court's statement concerning McDonald's after-the-fact self-serving conclusion of law to the effect that in his opinion neither Scott or appellant could have infringed (page 6, line 13, Memorandum Decision) and the Court's statement that McDonald "further averred that he had always advised his attorneys that the plaintiff could not be considered as an infringer" (page 6, lines 13-15). Even if this had been a sufficient basis for the Trial Court's opinion, or if one is to believe because of the case that he cited as authority (*Dr. Beck & Co. G.M.B.H. v. General Electric Company*, 2nd Cir., 1963, 317 F.2d 538), that he was finding that the Notice in question was sent by McDonald's attorneys without his actual authority, it still fails to meet and recognize the real problem which is one of *apparent authority*. In other words, what did the appellant, recipient of the Notice, have a right to believe from the Notice?

There is absolutely no question that when the Notice was received by appellant, Kramer, Walker, Pope & Plankey were McDonald's attorneys in all questions respecting the State action and the subject matter of the License Agreement including the patent. It is difficult to conceive of a situation in which there could be more obvious apparent authority of an attorney to send a notice of infringement on behalf of a client. The relation of attorney and client is one of agency, and the general rules of law apply including the doctrine of apparent authority.

The Trial Court also emphasized in its Opinion (p. 6) that "McDonald stated under oath the plain-

was not an infringer to the patent in question." statement is irrelevant in view of the at least recent authority of McDonald's then attorneys to the Notice, and in view of the fact that a patentee, after having given a notice of infringement making the basis for a declaratory judgment action directed to a determination of the validity of the patent, cannot by revoking the charge after the action has been commenced by the alleged infringer, therefrom form a basis for dismissal of the action. If this is not true a patentee could make indiscriminate infringement charges and then always escape the consequences by later making a self-serving revocation.

Even though the doctrine of apparent authority poses the question, appellant must point out the fact that scarcely two months after the Notice to Appellant, McDonald himself sent notices with substantially the same wording to other ski pole manufacturers including Anderson & Thompson (Exhibit quoted earlier in this Brief.* On cross-examination McDonald admitted (Page 78, Transcript) that the notices he sent were notices of patent infringement. It must be more than mere coincidence that the two notices are almost identical with respect to the language used and that they are identical in substance. It is virtually impossible not to believe that appellee had before him the notice composed by McDonald's attorneys on August 30th, 1965, addressed to Appellant at the time he composed his notice to Anderson & Thompson Ski Company two months later. It is likewise extremely difficult to suppose that appellee in composing the notice to Anderson & Thompson Ski Company and copying the notice sent to the

appellant may have thought that the notice to appellant was not a notice of infringement. Significantly, the appellee did not assert during Trial that the notice was ambiguous, but asserted instead that his attorneys sent it without authority.

The only other factor which the Trial Court could have considered in holding that appellant was not justified in considering the notice (Exhibit 39) as a claim of infringement would be the posture of the parties at that time. However, when such is carefully examined, it was not at all illogical for appellant to have considered that it was being treated as an infringer. Appellee had commenced an action against Scott, President of the appellant company (Page 282, Lines 3 through 25, Transcript). The action had been commenced in April of 1964 (See pleadings attached to Exhibit on Appellee's Answer, R-14). The suit was based upon the License here in question and was not tried until June of 1965, a few days prior to issuance of appellee's patent. At the conclusion of plaintiff's evidence (Appellee here) Motion for Non-Suit and Involuntary Dismissal was made by the defendant. Questions raised by the Motion were of sufficient seriousness and complexity that the trial thereupon stopped and was continued so that the Court could take defendant's motion under advisement and make a deliberate ruling based upon written briefs. The continuance that was granted for this purpose was a highly unusual thing in itself. Plaintiff therein, appellee herein, thereafter filed motions to have certain other parties brought into the State Court action including the appellant. The questions presented were of sufficient gravity that on August 30th, 1965, the day when the notice (Exhibit 39) concerning the patent, which had in the mean-

time issued, was dispatched to appellant, the matters had still not been resolved. Appellant submits that in that posture, it was not in the least illogical for appellant to assume that appellee, becoming daily more fearful as to what the ultimate decision of the Court might be in the State case, decided to perfect a possible alternative cause of action based on patent infringement which could not have come into being until his patent issued on July 6, 1965.

Considering the fact that both parties were represented by counsel in the State action, that the very heart of that case was the License Agreement, and that several times counsel for appellant had urged as a defense during the proceedings in the State action that no patent had issued on the licensed invention, it would be the usual and ordinary practice for appellee's attorneys to have contacted appellant's attorney directly by telephone or letter to advise of the issuance of the patent. Instead, the Notice in question was mailed directly to appellant by appellee's attorneys and the wording is far more formal and detailed than would be expected if the intent was merely to simply advise that the patent had issued. It seems far more like a notice of infringement in accordance with *Title 35 U.S.C., Section 287*.

In any regard, even if the Notice be considered ambiguous, the normal rule of construction requires that any doubt as to the meaning thereof, resulting from an ambiguity in its terms, be resolved against the person (appellee) who gave the notice. *66 C.J.S. Notice, Sec. 19a*, p. 668. "If it fails to convey clearly his meaning to the other party the fault is his, and the consequences must be on him." *Carpenter v. Thurston*, 30 Cal. 123, 125 (1866).

The Court in its Opinion (Memorandum Decision, Page 6, R-198) in part bases its determination of the Notice issue upon the fact that under cross-examination, appellant's President, Scott, had never claimed an infringement by appellant except with the notice (Exhibit 39). Appellee knows of no rule of law that requires more than one notice of infringement. Furthermore, the record does not disclose nor has there in fact been any communication between appellant and appellee, other than the Notice, since July 6th, 1965, date of issuance of the patent, which would be the first day upon which anyone could be an infringer.

The rule is well recognized that a patentee who treats its licensee as an infringer is estopped to assert the license as a defense to a claim of invalidity of the patent. The case of *Bucky v. Sebo*, 208 Fed.2d 304, 2nd Cir., 1953, is closely in point. In that case the defendant had an exclusive license with a specific provision that it would never contest validity of the patent. After paying royalties for some period of time, the defendant ceased payment whereupon plaintiff gave notice in writing to the defendant that its license was at an end. Plaintiff then brought suit against the defendant for infringement. Defendant raised the defense of validity of the patent and the trial court held the defendant was estopped as a licensee to assert that defense. On appeal the trial court was reversed and significantly it is noted in the footnote that the scope of the estoppel rule applied by the trial court is narrowing. The court stated the rule at Pages 305 and 306 as follows:

“We think for the following reasons, the judge erred in respect of estoppel concerning infringement: During the existence of a patent license

the licensee may be estoppel to contest validity. But even this estoppel usually vanishes when the license terminates, either because of lapse of time or through complete repudiation of the license by the licensee by act of the licensor.”

Other authorities for the rule are *N.S.W. Company Wholesale Lumber & Millwork*, 123 Fed.2d 38, 6th Cir., 1941, and *Consolidated Electro Corporation v. Midwestern Instruments*, 260 F.2d 811, 814-5, 10th Cir., 1958.

THE LICENSE AGREEMENT IS ILLEGAL ON ITS FACE AND THE TRIAL COURT SHOULD HAVE PASSED ON THIS ISSUE

It has been long established that “a court will not lend its aid, in any way, to a party seeking to realize the fruits on an agreement that appears to be tainted with illegality, although the results of applying that rule may sometime be to shield one who has got something for which, as between man and man, he ought, perhaps, to pay, but for which he is unwilling to pay.” *Continental Wall Paper Co. v. Louis Voight Sons Co.*, 212 U. S. 227, 262, 29 S.Ct. 280, 53 L.Ed. 36, 505, (1908). In the present case the Licensee agreement in question (Exhibit 69) was executed over 4½ years prior to the issuance of the patent on the licensed invention without appellee having independent counsel and contains the following illegal provisions:

“5. The License shall extend for the term of the life of any patent or patents issuing on said invention or direct improvements thereof, or, if no such patents issue, for a period of seventeen years from the date of this Agreement. It is specifically understood that part of the con-

sideration of this Agreement is the disclosure to Licensee by Licensor of the structure of the invention together with information pertaining to the mode of manufacturing the same, and accordingly *the royalty payments shall continue so long as the Licensee manufactures or sells devices in accordance with said invention whether or not a patent or patents issue and whether or not any patents which may issue are held invalid*.

8. It is hereby specifically agreed that the parties hereto contemplate items manufactured in accordance with the aforesaid invention *are to be sold as quality items at or above the highest price of comparable items on the market*. If the Licensee desires to market cheaper models, he must first obtain the consent of the Licensor, in writing, to sell items below the highest price of comparable items on the market.” (emphasis added)

It will be noted that the first of these, Paragraph 8, not only requires Licensee (appellant) to pay royalties before the patent issued and during the term of the patent, but to pay royalties for 17 years (the normal life of a patent) even if a patent never issues or if it did issue, *to pay royalties beyond the term of the patent*, even if held invalid. In *Brulotte v. Thys Co.*, 379 U. S. 29, 32, 85 S. Ct. 176, 13 L.Ed.2d 99, 100 (1964), the Supreme Court held “that a patentee’s use of a royalty agreement that projects beyond the expiration date of the patent *is unlawful per se*.” (emphasis added) Parties can’t by contract “bootstrap” into existence rights from subject matter in the public domain. *Cable Vision, Inc., v. KUTV Inc.*, 335 F.2d 348, 351, 9th Cir., 1964.

The second of these quoted clauses, Paragraph 9, is clearly a price-fixing provision. At the trial it was developed through the testimony of the appellee M

Donald (Pages 348-350, Transcript) that he had in fact undertaken a manufacturing and marketing enterprise of his own in competition with his non-exclusive licensee Scott to manufacture and sell the product in question under the trademark "Tempo." Although this enterprise was unsuccessful it is significant that this enterprise serves to symbolize that it would have been possible for appellee, because of the above quoted license provision defining minimum price, to manufacture and sell the licensed product and thus establish the minimum price at which his licensee could sell the product.

It is well established that a contract containing a price-fixing provision is invalid as being a violation of the Sherman Anti-Trust Act, 15 U.S.C.A. 1-7, 15 Stat. 7, unless the contract is a license under a lawfully granted patent monopoly. *Continental Wall Paper Company v. Louis Voight & Sons Co.*, supra; *Sola Electric Company v. Jefferson Electric Company*, 317 U. S. 173, 63 S.Ct. 172, 87 L.Ed. 165, (1942); *Edward Katzinger Company v. Chicago Metallic Manufacturing Company*, 329 U. S. 394, 67 S.Ct. 416, 91 L.Ed. 104, (1947). As previously mentioned, when the License Agreement in the present case was executed in 1960 there wasn't even an issued patent (issued in 1965). Therefore, *the License Agreement was clearly valid when entered into*, as a consequence of the price fixing clause, because at that time the contract did not have the benefit of any patent monopoly. Certainly, it is illogical to conclude that a contract which is invalid at its inception can take on a valid life nearly five years later because a patent then issued, particularly when the licensee, as in the present case, had discontinued making any payments under the Agreement long before the patent issued.

To so conclude when the contract was also illegal per se, as in the present case, because it required royalties to be paid beyond the expiration date of the patent, would be a complete disregard for public policy.

The Trial Court declined to accept or pass opinion on the illegality of the License Agreement (Memorandum Decision, Page 7, R-198) with the statement that the price fixing issue represented a last moment effort by appellant to attack validity of the License Agreement and the further statement that it could best be left to the State Court which has before it the contract for enforcement. The issue of the illegality of the license was brought to the attention of the trial court in conference prior to trial, testimony was developed bearing upon it during the trial (Line 16, p. 349 through line 25, p. 350, Transcript of Testimony) and it was vigorously urged with abundant citations of authority in oral argument at the trial.

To leave this question to the State Court is improper and an over-simplification of the issue. Neither the validity of the patent nor the price-fixing provision is in issue in the State Court. Even if the pleadings could be amended so as to question validity of the patent in the State Court and thus determine the validity of the price fixing provision, or if a new and independent action were commenced, it would still place a tremendous financial burden on both the litigants and compel a repeat of the expenditure of talent, time and money that the record amply discloses was expended in the instant case. This is made all the more apparent by the court's statement in its Memorandum Decision (page 7) that *it has in fact arrived at a conclusion on the question of patent validity*. Hence no further trial is required to com

etely dispose of all of the issues between the parties
ised herein.

From a reading both of the Supreme Court decision
*Edward Katzinger Company v. Chicago Metallic
Manufacturing Company*, supra, and the report of the
proceedings had in the Seventh Circuit, 139 F.2d 291,
appears that *the issue of price fixing was not raised
until after trial* and before entry of the trial court's
decree.

Even if the License Agreement in the present case
had not been entered into until after the McDonald
patent issued, the law is well settled that a licensee
in such an instance is freed from any estoppel to chal-
lenge the validity of the patent and thus determine
whether or not the License Agreement is in violation
of the Anti-Trust Laws of the United States. This is
because *a price fixing clause in a license agreement
can only be valid if the licensed patent is valid*. The
landmark case in this area is the case of *Sola Elec-
tric Company vs. Jefferson Electric Company*, 317
U. S. 173, 63 S.Ct. 172, 87 L.Ed. 165 (1942). In *Sola*,
plaintiff instituted an action for a specific perform-
ance of a license contract covering patented articles
upon which plaintiff had a patent. Defendant an-
swered and filed a counter-claim alleging certain pat-
ents covered by the License Agreement to be invalid
and asserted its right to question validity by reason
of a price-fixing clause in the contract. The trial court
held that defendant was estopped to challenge va-
lidity. This was affirmed by the Seventh Circuit but
was reversed by the Supreme Court. Mr. Chief Jus-
tice Stone speaking for the court stated the issue as
follows:

“The question for our decision is whether a patent licensee is estopped to challenge a price fixing clause in the agreement by showing that the patent is invalid, and that the price restriction is accordingly unlawful because not protected by the patent monopoly.”

After determining that the defendant-appellant could in fact seek a declaratory judgment to determine the validity of the patent and hence determine the legality of the price-fixing agreement, the Supreme Court concluded with the following language:

“Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act’s declaration that such agreements are unlawful, and to the public policy of the Act which in the public interest precludes the enforcement of such unlawful agreements.”

The case of *Edward Katzinger Company vs. Chicago Metallic Manufacturing Company*, supra, is further enlightening because of the fact that the factual situation encountered there was so nearly identical to the posture of the parties in the instant case. Metallic sold pans upon which Katzinger claimed to have a patent. Metallic paid royalties for a time. It then decided that certain of the pans that it sold were not covered by Katzinger’s patent and Metallic declined to pay any more royalties. The license in question contained an extensive price-fixing agreement giving the licensor in effect the right to fix prices. The contract likewise provided that if Metallic elected to terminate the contract without ceasing to manufacture the pans, Metallic should be estopped from denying the validity of the patent and be deemed an infringer thereof. Metallic gave notice of termina-

on of the contract and initiated an action for a declaratory judgment declaring the patent invalid for want of invention. Katzinger in his answer and counter-claim alleged that Metallic was estopped to challenge the validity of the patent.

In the Supreme Court it was also contended that the court should treat the price-fixing provision of the license as severable. However, in its Opinion the Supreme Court not only held that "price-fixing agreements such as those here involved are unenforceable as a matter of law because of violations to the Sherman Act save as they may be within the protection of a lawful patent," but also made it clear that *the presence of the price-fixing provision must cause the whole license to fail*. The Court stated the rule as follows:

"Metallic's obligation to pay the royalties and its agreement to sell at prices fixed by Katzinger constituted an integrated consideration for the license grant. Consequently, when one part of the consideration is unenforceable because in violation of law, its integrated companion must go with it."

Since the *Sola* and *Katzinger* Opinions by the Supreme Court of the United States, there have been many decisions elaborating upon the scope of federal jurisdiction in Anti-Trust cases. In the case of *Lyons v. Westinghouse Electric Corporation* decided in 1955 by the Second Circuit, 222 Fed.2d 184, a case which did not deal with a patent license but which was grounded upon the Clayton Act, that Court issued a Writ of Mandamus to the Federal Trial Judge directing that he vacate a stay order which had been entered staying further proceedings in an action in the Federal Court brought under the Clayton Act pending disposition of an action in the State Court

wherein the same parties were also parties and where certain of the acts complained of in the Federal Court constituted a defense that had been asserted in the State Court. In granting the Writ and directing that the stay order be vacated, Judge Learned Hand stated the rule at page 189 as follows:

“In the case at bar it appears to us that the grant to the district courts of exclusive jurisdiction over the action for treble damages should be taken to imply an immunity of their decisions from any prejudgment elsewhere; at least on occasions, like those at bar, where the putative estoppel includes the whole nexus of facts that makes up the wrong. * * * There are sound reasons for assuming that such recovery should not be subject to the determinations of state courts. It was part of the effort to prevent monopoly and restraints of commerce; and it was natural to wish to be uniformly administered, being national in scope.”

It is significant that in the *Lyons* case the proceeding in the State Court had actually gone to judgment and there remained only a pending appeal.

It would appear therefore in the instant case that the *Trial Court had no choice but to pass upon the question of price-fixing and the validity of the contract and could not leave it to be dealt with by the State Court.* This Court has so held in the case of *Mach-Tronics, Incorporated vs. Zirpoli*, 316 Fed.2d 820, 9th Cir., 1963, wherein a Writ of Mandamus issued out of this Court directing the Federal Trial Judge to vacate a stay order previously entered. In that case an action had been commenced in the State Court in California. Among other things, the defendant in the State Court had pleaded as a defense cer-

in acts which would have been violative of the Federal Anti-Trust Acts. Thereafter, the defendant in the State Court, plaintiff in the Federal Court, instituted an action in the Federal Court based upon the Clayton Act whereupon the motion to stay proceedings in the Federal Court pending disposition of the State Court case was granted and plaintiff sought Writ of Mandamus. The Writ issued and this court stated the rule as follows at Page 824:

“It has long been recognized that when a federal court is properly appealed to in a case over which it has by law jurisdiction, it is its duty to take such jurisdiction. *Wilcox v. Consolidated Gas Co.*, 212 U. S. 19, 40, 29 S.Ct. 192, 53 L.Ed. 382; *Meredith v. City of Winter Haven*, 320 U. S. 228, 234, 64 S.Ct. 7, 88 L.Ed. 9; *Propper v. Clark*, 337 U.S. 472, 69 S.Ct. 1333, 93 L.Ed. 1480; *Alleghany County v. Frank Mashuda*, 360 U. S. 185, 188-189, 79 S.Ct. 1060, 3 L.Ed.2d 1163. It has also been considered to be the rule that when a federal court is presented with a case of which it has cognizance it may not turn the matter over for adjudication to the state court, and the pendency of an action in the state court is no bar to the proceedings concerning the same matter in the federal court. *McClellan v. Carland*, supra, 217 U. S. pp. 281-282, 30 S.Ct. 501.”

This Court approved the above stated rule in the case of *Lear Siegler, Inc. vs. Adkins*, 330 Fed.2d 595, 9th Cir., 1964. Although that case was one in which this court upheld a stay order where no Anti-Trust question was in issue in either the State or Federal Court, nevertheless, recognized the rule announced in the decisions above cited at Page 602 as follows:

“The authorities upon which Lear relies are not in point. They involve actions in which the district court is without discretion to decline to

exercise its jurisdiction, such as actions under the anti-trust laws (Lyons v. Westinghouse Elec. Corp., 2 Cir., 1955, 222 F.2d 184; Mach-Tronics Inc. v. Zirpoli, 9 Cir. 1963, 316 F.2d 820).”

C. SUMMARY

1. Appellee Donald's attorneys had actual or apparent authority to send the Notice of August 30, 1965, (Exhibit 39) to Appellant in behalf of Appellee.

2. The Notice (Exhibit 39) to Appellant is worded like a notice of infringement, and Appellant had a right to consider it as such.

3. The License Agreement (Exhibit 69), prepared by Appellee's attorneys, was illegal and unenforceable when executed in 1960 long prior to the issuance of the McDonald patent (Exhibit 33), and therefore Appellant is not estopped to contest validity of the patent.

4. Even if the McDonald patent had issued prior to the License Agreement, Appellant (licensee) could have contested validity of the patent in view of the price fixing provision and/or the provision in the license that royalties shall be paid after the patent expires.

5. The Trial Court should have ruled on this issue the alleged illegality of the price fixing and other monopoly extension provisions of the License Agreement.

6. The Trial Court should have ruled on the validity of the McDonald patent.

JAMES B. DONART
DONART & DONART
Attorneys for Plaintiff-Appellant

East Main Street
Pocatello, Idaho 83672

RICHARD W. SEED
SEED, BERRY & DOWREY

102 Norton Building
Seattle, Washington 98104

CERTIFICATE OF SERVICE

A true copy of the foregoing Appellant's Brief has been sent to Lloyd J. Webb of Rayborn, Rayborn Webb & Pike, P. O. Box 321, Twin Falls, Idaho 83301 as attorney for Appellee, by United States mail postage prepaid, this.....day of December, 1967.

Richard W. Seed ·

CERTIFICATE OF COMPLIANCE

I certify that, in connection with the preparation of this Brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit and that in my opinion, the foregoing Brief is in full compliance with these rules.

Richard W. Seed
Counsel for Plaintiff-Appellant